PHUMELELA LOCAL MUNICIPALITY

(Registration number Demarcation number: FS 195)

Annual Financial Statements
for the year ended 30 June 2020

General Information

Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community
Mayoral committee	
Executive Mayor	Cllr. TJ Motaung
Speaker	Cllr. TR Zwane
Chief Whip	Cllr. TM Tshabalala
Councillors	Cllr. SE Tshabalala
	Cllr. DA Wessels
	Cllr. KA Sibeko
	Cllr. MM Mashinini
	Cllr. NJ Mokoena
	Cllr. MB Mhlambi
	Cllr. BV Khumalo
	Cllr. MS Ntsele
	Cllr. VP Kibido
	Cllr. B Mthombeni
	Cllr. JM Mofokeng
	Cllr. OA Mokoena
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	NF Ralebenya
Accounting Officer	Mrs NF Malatjie
Registered office	Civic Centre Corner Prinsloo and Kuhn Streets Vrede 9835
Business address	Civic Centre Corner Prinsloo and Kuhn Streets Vrede 9835
Postal address	Private Bag X5 Vrede 9835
Bankers	ABSA Bank Limited FNB Bank Limited
Auditors	Auditor General - South Africa

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on:

Mrs NF Malatjie
Accounting officer

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interests of the local community.

Net deficit of the municipality was R 75 915 137 (2019: deficit R 6 946 625).

2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 358 463 227 .

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Accounting Officer's interest in contracts

The Accounting Officer does not have an interest in contracts.

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Mrs NF Malatjie

6. Bankers

ABSA Bank Limited will continue to provide banking services to the municipality.

7. Auditors

Auditor General - South Africa will continue in office for the next financial period.

8. Public Private Partnership

The Municipality did not enter into any Public Private Partnership for the 2019/2020 financial year, nor does it have any existing PPP's.

9. Non-compliance with applicable legislation

In terms of section 65 (2)(e) of the Municipal Finance Act (No. 56 of 2003), all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement. Due to cash flow constraints, the municipality, could not settle all money owing within the prescribed period.

In terms of section 126 (1)(a) of the Municipal Finance Act (No. 56 of 2003), the accounting officer of a municipality must prepare the annual financial statements within 2 months after the end of the financial year.

Accounting Officer's Report

In terms of section 71 (1) of the Municipal Finance Act (No. 56 of 2003), the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month. During the financial year, the municipality did not comply with the required legislation as reports were submitted late.

Mrs NF Malatjie
Accounting officer

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	7	938 847	1 109 732
Receivables from exchange transactions	8&12	15 846 573	28 292 601
Receivables from non-exchange transactions	9&12	2 038 153	1 165 938
VAT receivable	10	9 758 450	10 230 165
Cash and cash equivalents	13	86 327	3 600 574
		28 668 350	**44 399 010**
Non-Current Assets			
Investment property	2	13 432 492	13 775 843
Property, plant and equipment	3	711 883 966	718 526 915
Heritage assets	4	5 761	5 761
Other financial assets	5	416 358	435 069
		725 738 577	**732 743 588**
Total Assets		**754 406 927**	**777 142 598**
Liabilities			
Current Liabilities			
Other financial liabilities	15	-	116 430
Payables from exchange transactions	17	342 229 465	295 322 376
Consumer deposits	18	222 384	234 469
Employee benefit obligation	6	991 410	792 948
Provisions	16	2 090 027	2 941 992
		345 533 286	**299 408 215**
Non-Current Liabilities			
Employee benefit obligation	6	4 783 798	5 274 115
Provisions	16	45 626 616	38 081 905
		50 410 414	**43 356 020**
Total Liabilities		**395 943 700**	**342 764 235**
Net Assets		**358 463 227**	**434 378 363**
Accumulated surplus		358 463 227	434 378 363

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	47 669 263	33 053 029
Rental of facilities and equipment	21	442 331	417 966
Rebate on Eskom Interest received		1 787 795	10 397 927
Fair value adjustment of landfill site		-	2 542 305
Other income	23	567 016	600 791
Interest received - investment	24	18 985 168	19 878 704
Gain on disposal of assets and liabilities		1 091	-
Actuarial gains		433 746	-
Total revenue from exchange transactions		**69 886 410**	**66 890 722**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	14 689 581	12 614 134
Transfer revenue			
Government grants & subsidies	26	139 367 801	120 642 332
Public contributions and donations	27	-	12 700 000
Fines, Penalties and Forfeits	22	88 187	163 500
Total revenue from non-exchange transactions		**154 145 569**	**146 119 966**
Total revenue	19	**224 031 979**	**213 010 688**
Expenditure			
Employee related costs	28	(73 034 945)	(66 473 294)
Remuneration of councillors	29	(6 350 536)	(6 183 678)
Depreciation and amortisation	30	(29 545 913)	(28 428 007)
Impairments	31	(17 988 482)	(2 722 688)
Finance costs	32	(11 036 186)	(6 173 683)
Debt Impairment	33	(72 581 706)	(32 728 169)
Bulk purchases	34	(43 721 546)	(44 643 807)
Fair value adjustments		-	(29 473)
Actuarial losses		-	(491 712)
General Expenses	35	(45 687 802)	(38 626 541)
Total expenditure		**(299 947 116)**	**(226 501 052)**
Deficit for the year		**(75 915 137)**	**(13 490 364)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	**447 868 727**	**447 868 727**
Changes in net assets		
Surplus for the year	(13 490 364)	(13 490 364)
Total changes	(13 490 364)	(13 490 364)
Opening balance as previously reported	436 354 848	436 354 848
Adjustments		
Prior year adjustments	(1 976 484)	(1 976 484)
Balance at 01 July 2019 as restated*	**434 378 364**	**434 378 364**
Changes in net assets		
Surplus for the year	(75 915 137)	(75 915 137)
Total changes	(75 915 137)	(75 915 137)
Balance at 30 June 2020	**358 463 227**	**358 463 227**

Note(s)

Phumelela Local Municipality
(Registration number Demarcation number: FS 195)
Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Property rates taxation		13 817 367	14 108 714
Service charges		14 036 097	19 753 811
Grants		137 950 801	125 166 546
Interest income		18 252 533	18 229 583
Other income		1 167 766	783 824
		185 224 564	178 042 478
Payments			
Employee costs		(73 309 071)	(69 162 358)
Suppliers		(63 748 831)	(54 957 444)
Finance costs		(11 036 186)	(6 173 683)
		(148 094 088)	(130 293 485)
Net cash flows from operating activities	39	**37 130 476**	**47 748 993**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(41 752 790)	(51 738 801)
Proceeds from sale of property, plant and equipment	3	1 205 786	-
Proceeds from sale of financial assets		18 711	-
Net cash flows from investing activities		**(40 528 293)**	**(51 738 801)**
Cash flows from financing activities			
Repayment of other financial liabilities		(116 430)	(291 965)
Net cash flows from financing activities		**(116 430)**	**(291 965)**
Net increase/(decrease) in cash and cash equivalents		**(3 514 247)**	**(4 281 773)**
Cash and cash equivalents at the beginning of the year		3 600 574	7 882 345
Cash and cash equivalents at the end of the year	13	**86 327**	**3 600 572**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	49 408 381	-	**49 408 381**	47 669 263	**(1 739 118)**	Please refer below for reasons.
Rental of facilities and equipment	2 176 228	-	**2 176 228**	442 331	**(1 733 897)**	Please refer below for reasons.
Other income 1	-	-	**-**	1 787 795	**1 787 795**	Please refer below for reasons.
Other income - (rollup)	1 584 000	34 477	**1 618 477**	567 016	**(1 051 461)**	Please refer below for reasons.
Licences and permits	25 590	17 583	**43 173**	-	**(43 173)**	Please refer below for reasons.
Interest received - investment	15 493 073	4 414 884	**19 907 957**	18 985 168	**(922 789)**	Please refer below for reasons.
Total revenue from exchange transactions	**68 687 272**	**4 466 944**	**73 154 216**	**69 451 573**	**(3 702 643)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	13 231 688	-	**13 231 688**	14 689 581	**1 457 893**	Please refer below for reasons.
Transfer revenue						
Government grants & subsidies	79 331 000	2 417 000	**81 748 000**	139 367 801	**57 619 801**	Please refer below for reasons.
Fines, Penalties and Forfeits	57 240	88 028	**145 268**	88 187	**(57 081)**	Please refer below for reasons.
Total revenue from non-exchange transactions	**92 619 928**	**2 505 028**	**95 124 956**	**154 145 569**	**59 020 613**	
Total revenue	**161 307 200**	**6 971 972**	**168 279 172**	**223 597 142**	**55 317 970**	
Expenditure						
Personnel	(70 812 994)	(4 599 279)	**(75 412 273)**	(73 034 945)	**2 377 328**	Please refer below for reasons.
Remuneration of councillors	(6 476 931)	(3 715)	**(6 480 646)**	(6 350 536)	**130 110**	Please refer below for reasons.

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Depreciation and amortisation	(6 648 600)	400 000	**(6 248 600)**	(29 545 913)	**(23 297 313)**	Please refer below for reasons.
Impairment loss/ Reversal of impairments	-	-	-	(17 988 482)	**(17 988 482)**	Please refer below for reasons.
Finance costs	(2 718 480)	(910 000)	**(3 628 480)**	(11 036 186)	**(7 407 706)**	Please refer below for reasons.
Debt Impairment	(15 680 537)	-	**(15 680 537)**	(72 581 706)	**(56 901 169)**	Please refer below for reasons.
Bulk purchases	(15 161 766)	-	**(15 161 766)**	(43 721 546)	**(28 559 780)**	Please refer below for reasons.
General Expenses	(37 447 614)	(2 078 716)	**(39 526 330)**	(45 687 802)	**(6 161 472)**	Please refer below for reasons.
Contracted services	(4 521 798)	(1 503 202)	**(6 025 000)**	-	**6 025 000**	Please refer below for reasons.
Total expenditure	**(159 468 720)**	**(8 694 912)**	**(168 163 632)**	**(299 947 116)**	**(131 783 484)**	
Operating deficit	**1 838 480**	**(1 722 940)**	**115 540**	**(76 349 974)**	**(76 465 514)**	
Gain on disposal of assets and liabilities	-	-	-	1 091	**1 091**	Please refer below for reasons.
Actuarial gains/losses	-	-	-	433 746	**433 746**	Please refer below for reasons.
	-	-	-	**434 837**	**434 837**	
Deficit before taxation	**1 838 480**	**(1 722 940)**	**115 540**	**(75 915 137)**	**(76 030 677)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**1 838 480**	**(1 722 940)**	**115 540**	**(75 915 137)**	**(76 030 677)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	-	938 847	**938 847**	Please refer below for reasons.
Receivables from exchange transactions	119 995 626	-	**119 995 626**	609 378	**(119 386 248)**	Please refer below for reasons.
Receivables from non-exchange transactions	-	-	-	2 038 153	**2 038 153**	Please refer below for reasons.
VAT receivable	638 350	-	**638 350**	9 758 450	**9 120 100**	Please refer below for reasons.
Cash and cash equivalents	9 025 209	-	**9 025 209**	86 327	**(8 938 882)**	Please refer below for reasons.
	129 659 185	**-**	**129 659 185**	**13 431 155**	**(116 228 030)**	
Non-Current Assets						
Investment property	-	-	-	13 432 492	**13 432 492**	Please refer below for reasons.
Property, plant and equipment	938 562 806	-	**938 562 806**	711 883 966	**(226 678 840)**	Please refer below for reasons.
Heritage assets	-	-	-	5 761	**5 761**	Please refer below for reasons.
Other financial assets	-	-	-	416 358	**416 358**	Please refer below for reasons.
	938 562 806	**-**	**938 562 806**	**725 738 577**	**(212 824 229)**	
Total Assets	**1 068 221 991**	**-**	**1 068 221 991**	**739 169 732**	**(329 052 259)**	
Liabilities						
Current Liabilities						
Other financial liabilities	30 252	-	**30 252**	-	**(30 252)**	Please refer below for reasons.
Finance lease obligation	2 665 954	-	**2 665 954**	-	**(2 665 954)**	Please refer below for reasons.
Payables from exchange transactions	75 000 000	-	**75 000 000**	342 229 465	**267 229 465**	Please refer below for reasons.
VAT payable	1 951 460	-	**1 951 460**	-	**(1 951 460)**	Please refer below for reasons.

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Consumer deposits	-	-	-	222 384	222 384	Please refer below for reasons.
Employee benefit obligation	-	-	-	991 410	991 410	Please refer below for reasons.
Provisions	-	-	-	2 090 027	2 090 027	Please refer below for reasons.
Current portion of long term liabilities	45 601	-	45 601	-	(45 601)	Please refer below for reasons.
	79 693 267	-	**79 693 267**	**345 533 286**	**265 840 019**	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	4 783 798	4 783 798	Please refer below for reasons.
Provisions	52 505 909	-	52 505 909	45 626 616	(6 879 293)	Please refer below for reasons.
	52 505 909	-	**52 505 909**	**50 410 414**	**(2 095 495)**	
Total Liabilities	**132 199 176**	-	**132 199 176**	**395 943 700**	**263 744 524**	
Net Assets	**936 022 815**	-	**936 022 815**	**343 226 032**	**(592 796 783)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	936 022 815	-	936 022 815	343 226 032	(592 796 783)	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Category	Reason
Revenue	
Service Charges	This was due to illegal connections on electricity as well as the drought experienced by the Vrede unit which has resulted in less revenue generated through the water service.
Rental of Facilities	Properties not in the ownership of the municipality were included in the projections used on the budget whereas the actual billed excluded this properties
Other Income	Less income on other revenue like grave fees, sundry income was generated than anticipated
Interest received- Investment	Due to the credit control measures put in place by the municipality, less interest was charged on consumer debtors.
Property rates	Accounting for the supplementary valuation roll has resulted in higher revenue from property rates.
Government grants & Subsidies	This is due to the inclusion of both the operational and capital grants in the financial statements whereas these are separate on the budget
Fines, Penalties and Forfeits	This is due to less people contravening the laws within the municipal boundaries.
Expenditure	
Personnel	The projections on the budget had accounted for vacant positions which were not filled during the financial year.
Remuneration of Councilors	This is due to adhoc budget expenses related to Councillors being less than anticipated. The municipality also implemented cost containment measures during the year as the cash flow position of the municipality is still in a dire situation.
Depreciation and amortization	Less depreciation was provided for during the budget process.
Finance costs	This is mainly due to the increasing Eskom debt and Department of Water Affairs accounts.
Impairment losses	No provision was made in the budget for uncollected fines. A condition assessment was performed during the year and a significant amount of infrastructure assets were impaired as due to budget constraints the maintenance of roads could not be kept.
Bulk Purchases	The budget for bulk purchases was not in line with the actual spend. This was an error on the budget. The 2019 year was not used as a basis for the 2020 budget expense.
General Expenses	The municipality implemented cost cutting measures during the year as the cash flow position of the municipality is still in a dire situation which resulted in an underspending for the year.
Statement of Financial Position	
Current Assets	
Inventory	More inventory items were purchased than initially anticipated.
Consumer Debtors	Gross debtors were accounted in the budget statement and not net impairment. This was an error in the budget.
Vat Receivables	The budget included VAT under consumer debtors. This was an error in the budget process.
Cash and Cash Equivalents	The cash flow was not accounted for correctly as the 2019 financial year was not used as a basis.
Non-Current Assets	
Investment Property	The Municipality never provided for Investment Property in the Annual budget this error will be corrected in the 2021 Annual budget.

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Property, plant and equipment	Land was restated in the current year due to reworked assets register.
Heritage Assets	No provision was made in the Annual budget for heritage assets
Current Liabilities	
Other financial liabilities	Incorrect amortization was applied on the DBSA liability.
Payables from Exchange transactions	The 2019 financial year was not used as basis for payables in the budget process. This resulted in an understatement in the budget.
Employee Benefit obligation	This was not provided in the budget
Provisions	This was not provided in the budget
Vat Payables	VAT payables was budgeted for but never incurred
Non-Current Liabilities	
Employee benefit obligation	As the valuation of the provision are only performed at year end, the budget movement was unknown in the budget process
Provisions	As the valuation of the provision are only performed at year end, the budget movement was unknown in the budget process

Accounting Policies

Figures in Rand	Note(s)	2020	2019

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a payment rate basis per consumer. The payment rate is calculated on the total payments received per consumer in the current year, and then divided by the total revenue billed per consumer for the current year. The percentage is then converted to a non payment ratio. The non payment ratio is then multiplied with the consumers total outstanding balance. The movement between a consumers yearly impairment balance are accounted through profit and loss in the statement of financial performance.

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of Property, Plant and Equipment and Investment Properties

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and Investment properties. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives. In the event that a depreciating asset is nearing the end of its useful live, the availability of budget to replace the asset is considered. If the asset is not budgeted to be replaced, the useful life is extended by one year. Depreciation is adjusted going forward.

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Accounting Policies

1.5 Investment property (continued)

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	15 - 50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Accounting Policies

1.6 Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Buildings	Straight-line	15 to 50 years
Plant and machinery	Straight-line	10 years
Furniture and fixtures	Straight-line	10 years
Motor vehicles	Straight-line	10 years
Office equipment	Straight-line	10 years
IT equipment	Straight-line	10 years
Landfill sites	Straight-line	20 to 33 years
Electricity Network	Straight-line	15 to 50 years
Roads network	Straight-line	10 to 80 years
Wastewater network	Straight-line	12 to 50 years
Water network	Straight-line	15 to 80 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

Accounting Policies

1.6 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.7 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Accounting Policies

1.8 Heritage assets (continued)

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Financial instruments are classified into three categories namely, financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost. The Municipality determines the classification of its financial instruments at initial recognition.

Initial recognition and measurement

A financial instrument is recognised, when the Municipality becomes a party to the contractual provisions of the instrument, and are initially measured at fair value. In the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added or deducted from the fair value, as appropriate on initial recognition.

Subsequent measurement – financial assets

Financial assets consist of cash and cash equivalents, deposits, receivables and investments.

Accounting Policies

1.9 Financial instruments (continued)

Receivables are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

A provision for impairment of receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the carrying amount of the provision is recognised in the Statement of Financial Performance. When a receivable is considered uncollectible, it is written off against the provision. Any gains or losses arising from the change in fair value of investments measured at fair value are recognised in the Statement of Financial Performance.

Residual interests that do not have a quoted market price in an active market, and the fair value of which cannot be reliably are subsequently measured at cost less any impairment. Impairment is considered when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Any calculated impairment is recognised in the Statement of Financial Performance.

Subsequent measurement – financial liabilities

Financial liabilities consist of payables, interest bearing loans and bank overdrafts. These liabilities are subsequently measured at amortised cost, using the effective interest rate method. Finance costs are expensed in the Statement of Financial Performance in the period in which they are incurred except where stated otherwise (see accounting policy on borrowing costs).

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Municipality establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are carried at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts.

Accounting Policies

1.9 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade receivables from Exchange transactions	Financial asset measured at amortised cost
Trade receivables from Non-Exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
VAT Receivable	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from Exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Employee benefit obligations	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

1.10 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Accounting Policies

1.10 Statutory receivables (continued)

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

Accounting Policies

1.10 Statutory receivables (continued)

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 Inventories

Inventory consist of raw materials, work in progress, consumables and finished goods, which are valued at the lower of cost, determined on the first in first out basis, and net realisable value, except for items which are valued at the tariffs charged. Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at the lower of cost and current replacement value.

Accounting Policies

1.12 Inventories (continued)

Cost of inventory comprises all costs of purchase, cost of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Redundant and slow moving inventory are identified and written down to their estimated net realisable values estimated by management. Inventories are written down according to their age, condition and utility. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventory arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventory recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventory is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Water Inventory

Water is regarded as inventory when the Municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the Municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the Municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the Statement of Financial Position.

The basis of determining the cost of water purchased and not yet sold at Statement of Financial Position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates. Water is valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

1.13 Impairment of cash-generating assets

The Municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at revalued amount reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

A Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

1.13 Impairment of cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Administrative/owner-occupied assets

It is accepted that all administrative assets, for example, vehicles, office equipment/furniture, plant and machinery, computer equipment and administrative land and buildings are non-cash generating assets as they do not generate any return.

Infrastructure assets

Infrastructure assets can be divided into five main groups, roads, water, electricity, sewer and waste management. Roads do not generate any return and is therefore categorised as non-cash generating assets.

Water and electricity infrastructure assets in the municipality generate a return in the form of water and electricity service charges. These returns are not considered to be commercial returns for the following reason:

- These levies are determined annually based on:

  -the funds required as per the budget; and

  -the fees set by ESKOM and NERSA

- The budget is prepared to meet the objective of the municipality as set out in the IDP and SDBIP;

- The objectives of the municipality set in the IDP and SDBIP is to deliver services to the community and not to generate a commercial return.

Water and electricity infrastructure assets are non-cash generating assets.

Waste management do generate a return in the form of a fee charged at landfill sites for the disposing of household waste when the load is of a certain size.

These landfill sites are however management to project heath, well-being and the environment by providing the facility to safely dispose of household waste. Landfill sites are treated as non-cash generating assets.

Community assets

Community assets are all categorised as non-cash generating assets even if some of these assets, for example, swimming pool, community hall or cemeteries generate a return. The return generated by these assets is small and immaterial in relation to the cost of the assets and therefore is not considered to be a commercial return. In addition, all community assets are held with the primary objectives of service delivery in the community, to uplift the communities and to stimulate and enhance economic growth in the different communities.

1.14 Impairment of non-cash-generating assets

The Municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Municipality estimates the recoverable service amount of the asset.

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

A Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Administrative/owner-occupied assets

It is accepted that all administrative assets, for example, vehicles, office equipment/furniture, plant and machinery, computer equipment and administrative land and buildings are non-cash generating assets as they do not generate any return.

Infrastructure assets

Infrastructure assets can be divided into five main groups, roads, water, electricity, sewer and waste management. Roads do not generate any return and is therefore categorised as non-cash generating assets.

Water and electricity infrastructure assets in the municipality generate a return in the form of water and electricity service charges. These returns are not considered to be commercial returns for the following reason:

- These levies are determined annually based on:

    -the funds required as per the budget; and

    -the fees set by ESKOM and NERSA

- The budget is prepared to meet the objective of the municipality as set out in the IDP and SDBIP;

- The objectives of the municipality set in the IDP and SDBIP is to deliver services to the community and not to generate a commercial return.

Water and electricity infrastructure assets are non-cash generating assets.

Waste management do generate a return in the form of a fee charged at landfill sites for the disposing of household waste when the load is of a certain size.

These landfill sites are however management to project heath, well-being and the environment by providing the facility to safely dispose of household waste. Landfill sites are treated as non-cash generating assets.

Community assets

Community assets are all categorised as non-cash generating assets even if some of these assets, for example, swimming pool, community hall or cemeteries generate a return. The return generated by these assets is small and immaterial in relation to the cost of the assets and therefore is not considered to be a commercial return. In addition, all community assets are held with the primary objectives of service delivery in the community, to uplift the communities and to stimulate and enhance economic growth in the different communities.

Accounting Policies

1.15 Employee benefits

The Municipality provides short term benefits, long term benefits and retirement benefits for its employees and councillors.

Short-term employee benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service.

Leave pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end and is shown as an accrual in the Statement of Financial Position.

Bonus Provisions

The Municipality recognises the expected cost of bonuses as a provision only when the Municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made at reporting date.

Post-employment benefits: Defined contribution plans

A defined contribution plan is a plan under which the Municipality pays fixed contributions into a separate entity. The Municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The Municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees.

Post-employment benefits: Defined benefit plans

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out by independent qualified actuaries regularly, as may be required for fair presentation.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Long-servoce Allowance

The Municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the Municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The Municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Accounting Policies

1.15 Employee benefits (continued)

Post retirement Health Care Benefits

The Municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the Municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the Municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Past-service costs are recognised immediately, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

1.16 Provisions and contingencies

Provisions are recognised when the Municipality has a present (legal or constructive) obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, where the provision being measured involves a large population of items; the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

Environmental Rehabilitation Provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Accounting Policies

1.17 Commitments (continued)

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 Revenue

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Recognition and measurement

The Municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Service Charges – exchange revenue

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Pre-paid Electricity – exchange revenue

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

Sale of goods – exchange revenue

Accounting Policies

1.18 Revenue (continued)

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Municipality has transferred to the buyer the significant risks and rewards of ownership of the goods;

- the Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- the amount of revenue can be measured reliably;

- it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality;

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividends – exchange revenue

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Revenue Recognition of Unclaimed Deposits – exchange revenue

Unclaimed deposits older than three (3) years are recognised as revenue.

Rates and Taxes – non-exchange revenue

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines – non-exchange revenue

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the Municipality is entitled to collect.

Subsequent to initial recognition and measurement, the Municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

Donations and Contributions – non-exchange revenue

Donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria. conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Transfers and subsidies – non-exchange revenue

Unconditional Grants

Equitable share allocations are recognised in revenue at the start of the financial year.

Conditional Grants

Accounting Policies

1.18 Revenue (continued)

Conditional grants recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Interest earned on grants received and invested is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

Services Received In-kind – non-exchange revenue

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Rates and Taxes – non-exchange revenue

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines – non-exchange revenue

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the Municipality is entitled to collect.

Subsequent to initial recognition and measurement, the Municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

Donations and Contributions – non-exchange revenue

Donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Transfers and subsidies – non-exchange revenue

Unconditional Grants

Equitable share allocations are recognised in revenue in the beginning of the financial year.

Conditional Grants

Conditional grants recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Interest earned on grants received and invested is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

Services Received In-kind – non-exchange revenue

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

Transfers and subsidies – non-exchange expenditure

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

The Municipality transfers money to individuals, organisations and other sectors of government from time to time. These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

1.20 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value-added taxation.

1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.22 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.23 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.24 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Accounting Policies

1.26 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/10/31.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.28 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, executive directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

Accounting Policies

1.29 Events after reporting date (continued)

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.30 Value added tax

The municipality is registered with the SARS for VAT on the payment basis, in accordance with the Section 15(2)(a) of the Value Added Tax Act no 89 of 1991. Revenue, expenses and assets are recognsised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.
Revenue, expenses and assets are recognised net of the amount of VAT except:
- Where the VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- Receivables and payables that are stated with the amount VAT included.

1.31 Grants-in aid (Expense)

The municipality annually awards grants to individuals and organisations based on merit. When making these transfers, the municipality does not
- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expecfed from an investment.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

2. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	31 464 154	(18 031 662)	13 432 492	31 464 154	(17 688 311)	13 775 843

Reconciliation of investment property - 2020

	Opening balance	Depreciation	Total
Investment property	13 775 843	(343 351)	13 432 492

Reconciliation of investment property - 2019

	Opening balance	Impairments	Depreciation	Total
Investment property	14 415 918	(295 177)	(344 898)	13 775 843

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	78 042 541	(25 768 454)	52 274 087	85 752 618	(33 478 532)	52 274 086
Buildings	129 689 071	(73 138 751)	56 550 320	124 188 163	(62 136 809)	62 051 354
Plant and machinery	388 743	(84 777)	303 966	82 774	(59 751)	23 023
Motor vehicles	7 730 082	(6 992 249)	737 833	7 730 082	(6 619 383)	1 110 699
Office equipment	1 952 771	(1 506 214)	446 557	1 821 446	(1 378 787)	442 659
IT equipment	4 593 297	(3 539 638)	1 053 659	4 463 515	(3 328 438)	1 135 077
Infrastructure - Road network	349 352 466	(185 263 166)	164 089 300	339 064 240	(169 326 720)	169 737 520
Infrastructure - Electricity network	38 432 959	(7 241 414)	31 191 545	19 404 535	(5 996 767)	13 407 768
Work In Progress	49 579 454	-	49 579 454	75 011 320	-	75 011 320
Wastewater network	119 115 734	(57 005 591)	62 110 143	119 109 315	(54 115 739)	64 993 576
Water network	405 380 087	(111 832 985)	293 547 102	374 474 252	(96 134 419)	278 339 833
Total	**1 184 257 205**	**(472 373 239)**	**711 883 966**	**1 151 102 260**	**(432 575 345)**	**718 526 915**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	52 274 086	-	(316 928)	-	-	-	316 929	52 274 087
Buildings	62 051 354	48 116	-	5 452 792	(3 584 009)	(7 417 933)	-	56 550 320
Plant and machinery	23 023	305 969	-	-	(24 244)	(782)	-	303 966
Motor vehicles	1 110 699	-	-	-	(372 866)	-	-	737 833
Office equipment	442 659	131 324	-	-	(124 367)	(3 059)	-	446 557
IT equipment	1 135 077	129 781	-	-	(183 044)	(28 155)	-	1 053 659
Infrastructure - Road network	169 737 520	-	-	10 288 226	(12 087 237)	(3 849 209)	-	164 089 300
Infrastructure - Electricity network	13 407 768	643 401	-	18 385 023	(1 219 227)	(25 420)	-	31 191 545
Work in progress	75 011 320	40 487 780	(887 767)	(65 031 879)	-	-	-	49 579 454
Wastewater network	64 993 576	6 419	-	-	(2 683 532)	(206 320)	-	62 110 143
Water network	278 339 833	-	-	30 737 367	(8 755 566)	(6 774 532)	-	293 547 102
	718 526 915	**41 752 790**	**(1 204 895)**	**(168 471)**	**(29 034 092)**	**(18 305 410)**	**316 929**	**711 883 966**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Land	52 522 317	-	-	(248 231)	-	52 274 086
Buildings	53 990 558	-	13 562 020	(3 345 275)	(2 155 949)	62 051 354
Plant and machinery	21 543	8 925	-	(5 898)	(1 547)	23 023
Motor vehicles	1 528 172	-	-	(415 759)	(1 714)	1 110 699
Office equipment	576 364	-	-	(123 752)	(9 953)	442 659
IT equipment	1 307 831	238 030	-	(240 461)	(170 323)	1 135 077
Infrastructure - Roads network	175 388 982	-	6 497 497	(12 148 959)	-	169 737 520
Infrastructure - Electricity network	12 412 156	-	1 724 153	(728 541)	-	13 407 768
Work in progress	157 468 605	51 410 862	(133 868 147)	-	-	75 011 320
Wastewater network	67 688 270	-	-	(2 694 694)	-	64 993 576
Water network	174 298 828	80 984	112 084 477	(8 124 456)	-	278 339 833
	697 203 626	**51 738 801**	**-**	**(28 076 026)**	**(2 339 486)**	**718 526 915**

Pledged as security

None of the Property, plant and equipment has been pledged as security.

Capitalised expenditure (excluding borrowing costs)

Buildings	5 500 908	13 562 020
Plant and machinery	305 969	8 925
Office equipment	131 324	-
IT equipment	129 781	238 030
Infrastructure	100 548 256	120 387 111
	106 616 238	**134 196 086**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

3. Property, plant and equipment (continued)

Details of properties

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	75 011 320	75 011 320
Additions/capital expenditure	40 487 780	40 487 780
Repairs transferred	(887 767)	(887 767)
Transferred to completed items	(65 031 879)	(65 031 879)
	49 579 454	**49 579 454**

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Total
Opening balance	165 215 680	165 215 680
Additions/capital expenditure	43 663 788	43 663 788
Transferred to completed items	(133 868 148)	(133 868 148)
	75 011 320	**75 011 320**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Infrastructure - Roads network	1 719 663	1 707 273
Infrastructure - Wastewater network	1 248 563	889 164
Infrastructure - Water network	1 338 913	859 112
General Repairs and maintenance	690 274	2 037 937
	4 997 413	**5 493 486**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

4. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	5 761	-	5 761	5 761	-	5 761

Reconciliation of heritage assets 2020

	Opening balance	Total
Art Collections, antiquities and exhibits	5 761	5 761

Reconciliation of heritage assets 2019

	Opening balance	Total
Art Collections, antiquities and exhibits	5 761	5 761

5. Other financial assets

Designated at fair value		
VKB Shares	416 358	435 069
Unlisted shares at fair value.		

Non-current assets		
Designated at fair value	416 358	435 069

Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Unlisted shares As the shares is traded on an open market security exchange - fair value is taken on year end for the share price traded on the exchange. Any gains or losses are accounted through fair value through profit and loss.	416 358	435 069

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

6. Employee benefit obligations

Defined benefit plan

It is the policy of the municipality to provide retirement benefits to all its employees who elect to participate in the different available schemes. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. The majority of employees belong to three benefit retirement funds. One fund is administered by the Provincial Pension Fund. These benefit funds are multi-employer funds and as such thay are treated as contribution plans in terms of exemption included in GRAP 25.

The last actuarial valuation was dated 30 June 2020.

Post retirement medical aid plan

NET DISCOUNT RATE

The key assumptions used in the valuation, with the prior years assumptions shown for comparison, are summarised below:

Assumption	30 June 2019	30 June 2020
Discount Rate (D)	8.80%	10.46%
Consumer price inflation (CPI)	4.90%	5.20%
Health care cost inflation (H = 1.50% + CPI)	6.40%	6.70%
Maximum Subsidy Cap Increase (MSC = (1.00% + CPI)*75%)	6.40%	6.70%

It is the relative levels of the discount rate and health care cost inflation to one another that are important, rather than the nominal values. The assumption regarding the relative levels of these two rates is our expectation of the long-term average.

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2019 the duration of liabilities was 5.96 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2020 is 8.02% per annum, and the yield on the inflation-linked bonds of a similar term was about 4.38% per annum, implying an underlying expectation of inflation of 3.01% per annum ([1 + 8.02% - 0.50%] / [1 + 4.38%] - 1).

A healthcare cost inflation rate of 4.51% was assumed. This is 1.50% in excess of the expected inflation over the expected term of the liability, consistent with the previous actuary.

In addition, for continuation pensioners whose subsidy was higher than the subsidy cap of R4,773, we assumed a maximum subsidy cap increase of 3.01% which is 75% of the salary inflation. Salary inflation was assumed to be 1.00% in excess of the expected inflation over the expected term of the liability

DEMOGRAPHIC AND DECREMENT ASSUMPTIONS

The demographic and decrement assumptions were consistent in the previous and current valuation period, and are as follows:

Assumption	**Continuation Pensioners** 30 June 2019	**Continuation Pensioners** 30 June 2020
Age difference between spouses	5 years	5 years
Proportion married	Actual marital status	Actual marital status

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

6. Employee benefit obligations (continued)

Mortality	PA (90) - 1 with a 1% mortality improvement p.a from 2010	PA (90) - 1 with a 1% mortality improvement p.a from 2010

POST EMPLOYMENT MEDICAL SUBSIDY:

The employer's post-employment health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member.

Phumelela is committed to pay subsidies broadly as follows:

In-service members are not eligible to receive the post employment medical subsidy.

All continuation members and their eligible dependants receive a 60% subsidy. As at the valuation date none of the continuation pensioners had a spouse.

All post-employment subsidies are subject to a maximum of R 4,773 as at 1 July 2020. The maximum subsidy amount has been assumed to increase in future at 75% of salary inflation.

Long service award liability

The Municipality offers employees LSA for every five years of service completed, from five years of service to 45 years of service, inclusive.

Table below describes the benefits awarded.

Completed Service (in years)	Long Service Bonuses (% of Annual Salary)	Description
5	4.0%	(5 / 250 + 2%) x annual earnings
10	7.0%	(10 / 250 + 3%) x annual earnings
15	10.0%	(15 / 250 + 4%) x annual earnings
20	11.0%	(15 / 250 + 5%) x annual earnings
25, 30, 35, 40, 45	12.0%	(15 / 250 + 6%) x annual earnings

Notes to above Table:

-Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. Phumelela advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.

-The amount of the gift is assumed to stay level, consistent with the assumption at the previous valuation.

VALUATION ASSUMPTIONS:

NET DISCOUNT RATE

The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

Assumption	30 June 2019	30 June 2020
Discount Rate	8.04%	7.82%
CPI	4.50%	2.86%

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

6. Employee benefit obligations (continued)

Salary increase rate	5.50%	3.86%
Net discount rate	2.41%	3.81%

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology of setting financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2019 the duration of liabilities was 5.85 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2020 is 7.82% per annum, and the yield on inflation-linked bonds of a similar term was about 4.34% per annum. This implies an underlying expectation of inflation of 2.86% per annum ([1 + 7.82% - 0.5%] / [1 + 4.34%] - 1).

We have assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 3.86% per annum

However, it is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 3.81% per annum ([1 + 7.82%] / [1 + 3.86%] - 1).

PROMOTIONAL SALARY INCREASE RATES

In addition to the normal salary inflation rate, we have assumed promotional salary increases consistent with the prior actuary. The rates are reflected in the table below:

Age band	Additional promotional scale
20 – 24	5.0%
25 – 29	4.0%
30 – 34	3.0%
35 – 39	2.0%
40 – 44	1.0%
> 44	0.0%

DEMOGRAPHIC AND DECREMENT ASSUMPTION

The demographic and decrement assumptions were consistent in the previous and current valuation period, and are as follows:

Assumption	30 June 2019	30 June 2020
Normal retirement age (years)	65	65
Average retirement age (years)	62	62
Mortality	SA85-90	SA85-90

The average retirement age for all active employees was assumed to be 62 years to implicitly allow for ill-health and early retirements

The following withdrawal assumptions were applicable over the prior and current valuation periods

Age	Withdrawal rates (Male)	Withdrawal rates (Female)
20	9%	9%
25	8%	8%
30	6%	6%
35	5%	5%
40	5%	5%

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

6. Employee benefit obligations (continued)

45	4%	4%
50	3%	3%
55+	-	-

The amounts recognised in the statement of financial position are as follows:

	2020	2019
Carrying value		
Present value of the defined benefit obligation - Post employment benefit plan	(1 614 781)	(1 888 833)
Present value of the defined benefit obligation - Long service awards	(4 160 427)	(4 178 230)
	(5 775 208)	**(6 067 063)**

	2020	2019
Non-current liabilities	(4 783 798)	(5 274 115)
Current liabilities	(991 410)	(792 948)
	(5 775 208)	**(6 067 063)**

Changes in the present value of the defined benefit obligation are as follows:

	2020	2019
Opening balance	(6 067 063)	(5 192 724)
Acturial gains	433 746	(491 712)
Net expense recognised in the statement of financial performance	(141 891)	(382 627)
	(5 775 208)	**(6 067 063)**

Net expense recognised in the statement of financial performance

	2020	2019
Current service cost	(479 724)	(393 593)
Interest cost	(455 115)	(424 239)
Benefits paid	792 948	435 205
	(141 891)	**(382 627)**

Calculation of actuarial gains and losses

	2020	2019
Actuarial (gains) losses – Long service awards	265 547	198 652
Actuarial (gains) losses – Post employment benefit plan	168 199	293 060
	433 746	**491 712**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

6. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.14 %	7.96 %
Health care cost inflation rate	6.70 %	5.77 %
Net discount rate - health care cost inflation	- %	2.07 %
Net discount rate - maximum subsidy inflation	- %	3.86 %

Sensitivity Analyeis for Post Employment benefit plan:

	1% decrease R's	30 June 2020 Valuation basis R's	1% increase R's
Medical inflation rate			
Employer's accrued liability	1,580,262	1,614,781	1,651,890
Employer's service cost (year following)	-	-	-
Employer's interest cost (year following)	118,315	120,034	124,020
Discount Rate			
Employer's accrued liability	1,706,375	1,614,781	1,532,011
Employer's service cost (year following)	-	-	-
Employer's interest cost (year following)	112,163	120,034	128,391

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

6. Employee benefit obligations (continued)

As per the table above, a 1% increase in the medical inflation rate results in a 2.30% increase in the accrued liability whilst a 1% decrease in the medical inflation rate will result in an 2.14% decrease in the accrued liability.

Inversely, a 1% increase in the discount rate results in a 5.13% decrease in the accrued liability whilst a 1% decrease in the discount rate will result in a 5.67% increase in the accrued liability.

PEMA Liability Reconciliation:

Opening Accrued Liability	(1 888 833)	(1 722 595)
-Current-service Cost	-	-
-Interest Cost	140 725	(136 112)
-Contributions (benefits paid)	(246 578)	262 934
Total Annual Expense	**(105 853)**	**(126 822)**
-Actuarial Loss / (Gain)	(168 199)	(293 060)
Closing Accrued Liability	**1 614 781**	**(1 888 833)**

LSA Liability Reconciliation:

Opening Accrued Liability	(4 178 230)	(3 470 129)
-Current-service Cost	479 724	(393 593)
-Interest Cost	314 390	(288 127)
-Contributions (benefits paid)	(546 370)	172 271
Total Annual Expense	**(247 744)**	**(509 449)**
-Actuarial Loss / (Gain)	(265 547)	(198 652)
Closing Accrued Liability	**(4 160 427)**	**(4 178 230)**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

6. Employee benefit obligations (continued)

Other disclosures

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

PEMA Disclosure: Amounts for the current and previous four years are as follows:

Summary of the accrued liabilities and the plan assets for the current period and the previous four periods.

	2020 R	2019 R	2018 R	2017 R	2016 R
Accrued liability	1 614 781	1 889 000	1 723 000	1 966 000	2 157 000
Surplus / (deficit)	(1 614 781)	(1 889 000)	(1 723 000)	(1 966 000)	(2 157 000)

Summary of the experienca adjustments for the current period and the previous four periods. Experience adjustments are the effects of differences between the previous acturial assumptions and what has actually occured.

	2020 R	2019 R	2018 R	2017 R	2016 R
Liabilities: (Gain) / Loss	(168 199)	67 000	(107 000)	(13 000)	31 000

LSA Disclosure: Summarises the accrued liabilities and the plan assetts for the current period and the previous four periods.

	2020 R	2019 R	2018 R	2017 R	2016 R
Accrued liability	4 160 427	4 178 230	3 470 129	3 189 729	3 082 762
Surplus / (deficit)	(4 160 427)	(4 178 230)	(3 470 129)	(3 189 729)	(3 082 762)

Summary of the experience adjustments for the current and previous four periods. Experience adjustments are the effects of differences between the previous acturial assumptions and what has actually occured

	2020 R	2019 R	2018 R	2017 R	2016 R
Liabilities: (Gain) / Loss	(265 547)	198 652	86 028	39 677	(404 830)

7. Inventories

	2020	2019
Consumable stores	891 590	1 062 317
Water for distribution	47 257	47 415
	938 847	**1 109 732**
Carrying value of inventories carried at fair value less costs to sell	938 847	1 109 732
Inventories recognised as an expense during the year	1 561 367	740 425

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

8. Receivables from exchange transactions

Sundry debtors	609 378	608 089
Consumer debtors - Electricity	311 532	923 649
Consumer debtors - Weter	2 195 438	8 604 374
Consumer debtors - Sewerage	2 607 102	8 004 362
Consumer debtors - Refuse	2 734 635	8 092 911
Consumer debtors - Housing rental	311 920	365 268
Consumer debtors - Other	7 076 568	1 693 948
	15 846 573	**28 292 601**

Fair value of trade and other receivables

Trade and other receivables	15 846 573	28 292 601

9. Receivables from non-exchange transactions

Fines	33 287	33 287
Consumer debtors - Rates	2 004 866	1 132 651
	2 038 153	**1 165 938**

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	2 038 153	1 165 938

10. VAT receivable

VAT	9 758 450	10 230 165

11. Consumer debtors

12. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	42 176 750	32 949 866
Consumer debtors - Electricity	3 918 321	3 449 253
Consumer debtors - Water	62 776 411	53 389 438
Consumer debtors - Sewerage	66 987 437	57 754 391
Consumer debtors - Refuse	68 379 929	58 650 482
Consumer debtors - Rental	3 465 564	3 216 337
Consumer debtors - Other	89 656 418	66 944 459
	337 360 830	**276 354 226**

Less: Allowance for impairment		
Consumer debtors - Rates	(40 171 884)	(31 817 215)
Consumer debtors - Electricity	(3 606 789)	(2 525 604)
Consumer debtors - Water	(60 580 973)	(44 785 064)
Consumer debtors - Sewerage	(64 380 335)	(49 750 029)
Consumer debtors - Refuse	(65 645 294)	(50 557 571)
Consumer debtors - Rental	(3 153 644)	(2 851 069)
Consumer debtors - Other	(82 579 850)	(65 250 511)
	(320 118 769)	**(247 537 063)**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

12. Consumer debtors disclosure (continued)

Net balance

Consumer debtors - Rates	2 004 866	1 132 651
Consumer debtors - Electricity	311 532	923 649
Consumer debtors - Water	2 195 438	8 604 374
Consumer debtors - Sewerage	2 607 102	8 004 362
Consumer debtors - Refuse	2 734 635	8 092 911
Consumer debtors - Rental	311 920	365 268
Consumer debtors - Other	7 076 568	1 693 948
	17 242 061	**28 817 163**

Included in above is receivables from exchange transactions

Electricity	311 532	923 649
Water	2 195 438	8 604 374
Sewerage	2 607 102	8 004 362
Refuse	2 734 635	8 092 911
Regional services levies	311 920	365 268
Housing rental	7 076 568	1 693 948
	15 237 195	**27 684 512**

Included in above is receivables from non-exchange transactions (taxes and transfers)

Rates	2 004 866	1 132 651
Net balance	**17 242 061**	**28 817 163**

Rates

Current (0 -30 days)	2 141 942	119 544
31 - 60 days	661 984	137 941
61 - 90 days	623 698	63 299
91 - 120 days	594 992	(292 371)
121 - 365+ days	38 154 134	32 921 453
Provision	(40 171 884)	(31 817 215)
	2 004 866	**1 132 651**

Electricity

Current (0 -30 days)	(346 145)	(127 598)
31 - 60 days	18 441	31 508
61 - 90 days	64 174	3 863
91 - 120 days	8 067	(81 138)
121 - 365+ days	4 173 784	3 622 618
Provision	(3 606 789)	(2 525 604)
	311 532	**923 649**

Water

Current (0 -30 days)	919 697	433 247
31 - 60 days	867 009	383 923
61 - 90 days	1 268 485	442 947
91 - 120 days	1 070 755	318 669
121 - 365+ days	58 650 464	51 810 652
Provision	(60 580 973)	(44 785 064)
	2 195 438	**8 604 374**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

12. Consumer debtors disclosure (continued)

Sewerage		
Current (0 -30 days)	1 020 395	467 533
31 - 60 days	1 065 905	602 821
61 - 90 days	1 105 784	588 260
91 - 120 days	1 006 397	495 635
121 - 365+ days	62 788 956	55 600 142
Provision	(64 380 335)	(49 750 029)
	2 607 102	**8 004 362**

Refuse		
Current (0 -30 days)	1 035 502	446 000
31 - 60 days	1 048 333	688 083
61 - 90 days	1 080 032	662 447
91 - 120 days	1 003 329	609 757
121 - 365+ days	64 212 734	56 244 195
Provision	(65 645 294)	(50 557 571)
	2 734 636	**8 092 911**

Housing rental		
Current (0 -30 days)	46 604	52 100
31 - 60 days	26 854	61 259
61 - 90 days	26 589	62 763
91 - 120 days	24 393	58 587
121 - 365 days	3 341 123	2 981 628
> 365 days	(3 153 644)	(2 851 069)
	311 920	**365 268**

Other		
Current (0 -30 days)	3 767 142	1 551 991
31 - 60 days	1 925 492	1 629 012
61 - 90 days	1 938 422	1 564 702
91 - 120 days	1 859 297	1 537 281
121 - 365+ days	76 201 643	57 803 488
Provision	(78 615 428)	(62 392 526)
	7 076 568	**1 693 948**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(247 537 063)	(214 808 894)
Contributions to allowance	(72 581 706)	(32 728 169)
	(320 118 769)	**(247 537 063)**

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	7 066	45 755
Bank balances	79 261	3 554 819
	86 327	**3 600 574**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

13. Cash and cash equivalents (continued)

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating		
Baa3	79 261	3 554 819

The municipality had the following bank accounts

Account number / description	Bank statsment balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
ABSA Bank - Current Account	20 764	223 394	337 729	20 764	223 394	337 729
ABSA - Grants Call Account	51 966	3 136 197	7 423 925	51 966	3 136 197	7 423 925
ABSA Bank - Call Account	1 009	151 672	11 064	1 009	151 672	11 064
First National Bank - 7 Day	4 481	4 481	4 481	4 481	4 481	4 481
First National Bank - Interest Plus	4	38 069	66 346	4	38 069	66 346
ABSA Bank - Call Account	1 038	1 006	-	1 038	1 006	-
Total	**79 262**	**3 554 819**	**7 843 545**	**79 262**	**3 554 819**	**7 843 545**

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Movement during the year

Balance at the beginning of the year	-	8 175 786
Additions during the year	136 950 801	112 466 546
Income recognition during the year	(136 950 801)	(120 642 332)
	-	-

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 26 for reconciliation of grants from National/Provincial Government.

15. Other financial liabilities

At amortised cost		
DBSA Loan 20 year loan, interest rate 17%, redemption date is at 30 September 2019.	-	116 430

Current liabilities		
At amortised cost	-	116 430

16. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	41 023 897	3 750 754	2 941 992	47 716 643

Reconciliation of provisions - 2019

	Opening Balance	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	40 664 929	(2 542 305)	2 901 273	41 023 897

	2020	2019
Non-current liabilities	45 626 616	38 081 905
Current liabilities	2 090 027	2 941 992
	47 716 643	**41 023 897**

Restructuring provision

There are three existing waste disposal sites, one in each town of Vrede, Memel and Warden. The Memel and Warden sites have to be closed due to them being unsuitable sites for waste disposal. A provision has been recognised to account for the closure cost estimate for the sites in question.

Landfill closure and rehabilitation

Landfill operations continue until all the available permitted airspace has been filled. Once this happens, the site close and capped with a layer of impermeable clay and a layer of the top soil. Grass and other suitable vegetation types are planted to stabilize the soil and improve the appearance. Environmental monitoring continues for a period of up to 30 years after the closure of the site. No appointment for the closure of the sites has been made, and therefore only rough estimates have been compiled without site visits with no detailed inspections or investigations. Basic information on the size and classification of each site was supplied.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

17. Payables from exchange transactions

13th cheque accrual	1 978 717	1 874 509
Accrued leave pay	5 088 617	5 165 483
Accrued salary expense	5 197 580	2 479 781
Debtors in credit	7 210 455	4 042 516
Payments received in advanced - contract in process	144 427	144 427
Retentions	17 395 639	17 951 421
Trade payables	276 511 052	240 936 770
Unallocated receipts and deposits	28 702 978	22 727 469
	342 229 465	**295 322 376**

Reasons for delayed or non-payment of Retentions(Older than 12 months):

1. Project 2016-03: The consultant has not yet issued the municipality with a close out report hence the retention has not been paid yet.
2. Project 2016-08: The consultant has not yet issued the municipality with a close out report hence the retention has not been paid yet.

Fair value of trade and other payables

Trade payables	338 471 060	285 885 041

18. Consumer deposits

Rates, water, refuse, electricity and rental	222 384	234 469

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

19. Revenue

Change in discount factor - land fill site provision	-	2 542 305
ESKOM rebate on interest received	1 787 795	10 397 927
Fines, Penalties and Forfeits	88 187	163 500
Government grants & subsidies	139 367 801	120 642 332
Interest received - investment	18 985 168	19 878 704
Other income related to municpal services	567 016	600 791
Property rates	14 689 581	12 614 134
Public contributions and donations	-	12 700 000
Rental of facilities and equipment	442 331	417 966
Service charges	47 669 263	33 053 029
	223 597 142	**213 010 688**

The amount included in revenue arising from exchanges of goods or services are as follows:

Change in discount factor - land fill site provision	-	2 542 305
ESKOM rebate on interest received	1 787 795	10 397 927
Interest received - investment	18 985 168	19 878 704
Other income - (rollup)	567 016	600 791
Rental of facilities and equipment	442 331	417 966
Service charges	47 669 263	33 053 029
	69 451 573	**66 890 722**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	14 689 581	12 614 134
Transfer revenue		
Government grants & subsidies	139 367 801	120 642 332
Public contributions and donations	-	12 700 000
Fines	88 187	163 500
	154 145 569	**146 119 966**

Basis on which fair value of inflowing resources was measured

Transfers

Fines

Fines issued in terms of the Criminal Procedures Act are usually issued by way of notice to offenders, and can (a) indicate the value of the fine to be paid, and that certain reductions could be made to the value of the fine payable and how, or the circumstances under which, such reductions can be applied, or (b) indicate that the offender must appear in Court on a specified date (in these instances, the value of the fine may or may not be indicated but this is often only determined after a separate legal process). In 2012, the ASB revised IGRAP 1 Applying the Probability Test on the Initial Recognition of Revenue to include revenue from non-exchange transactions. This amendment is applicable to municipalities from 1 July 2013. IGRAP 1 indicates that entities should not consider the probability of non-payment on the initial recognition of revenue. This should be considered as a subsequent event when assessing impairment.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

20. Service charges

Sale of electricity	14 950 851	6 521 841
Sale of water	12 352 404	8 148 035
Sewerage and sanitation charges	10 275 650	9 212 682
Refuse removal	10 090 358	9 170 471
	47 669 263	**33 053 029**

21. Rental of facilities and equipment

Premises		
Own Premises	442 331	417 966

22. Fines, Penalties and Forfeits

Traffic Fines	88 187	163 500

23. Other income

Building Fees	14 529	5 896
Cemetery Fees	162 572	179 061
Clearance certificate	32 820	30 274
Collecting Fees	184 813	179 552
Connection Fees	11 110	6 096
Sale of stands	92 696	9 102
Tender deposits	68 476	190 810
	567 016	**600 791**

24. Investment revenue

Interest revenue		
Bank	671 647	648 919
Interest charged on trade and other receivables	18 313 521	19 229 785
	18 985 168	**19 878 704**

25. Property rates

Rates received

Property rates	14 689 581	12 614 134

Valuations

Residential	1 228 974 354	1 228 974 354
Commercial	149 513 820	149 513 820
State	73 100 494	73 100 494
Municipal	56 330 000	5 633 000
Small holdings and farms	6 194 281 806	6 194 281 806
Institutional and Other	115 529 000	115 529 000
	7 817 729 474	**7 767 032 474**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

26. Government grants and subsidies

Operating grants		
Equitabla share	75 451 000	68 081 891
Local Government Finacial Management Grant (FMG)	2 880 000	2 415 000
Expanded Public Works Programme Integrated Grant (EPWP)	1 000 000	-
COGTA - Split meter grant	2 000 000	-
Municipal Disaster relief grant	417 000	-
	81 748 000	**70 496 891**
Capital grants		
Municipal Infrastructure Grant	21 048 000	27 858 895
Regional Bulk Infrastructure Grant (Direct)	14 411 801	-
Dept of Water & Sanitation (DWA & RBIG)	17 000 000	22 286 546
Integrated National Electrification Programme (5B)	5 160 000	-
	57 619 801	**50 145 441**
	139 367 801	**120 642 332**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	61 499 801	52 560 441
Unconditional grants received	77 355 168	68 081 891
	138 854 969	**120 642 332**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and the day to day running of the municipality.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	7 160 895
Current-year receipts	21 048 000	20 698 000
Conditions met - transferred to revenue	(21 048 000)	(27 858 895)
	-	-

Conditions still to be met - remain liabilities (see note 14).

Financial Management Grant

Current-year receipts	2 880 000	2 415 000
Conditions met - transferred to revenue	(2 880 000)	(2 415 000)
	-	-

Regional Bulk Infrastructure Grant (Direct)

Current-year receipls	14 411 801	7 286 546
Conditions met - transferred to revenue	(14 411 801)	(7 286 546)
	-	-

Dept of Water & Sanitation (DWA & RBIG)

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

26. Government grants and subsidies (continued)

Balance unspent at beginning of year	-	836 472
Current-year receipts	17 000 000	15 000 000
Conditions met - transferred to revenue	(17 000 000)	(15 000 000)
Unspent EPWP portion deducted from Equitable share in 2019	-	(836 472)
	-	-

Expanded Public Works Programme Integrated Grant (EPWP)

Balance unspent at beginning of year	-	178 419
Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(1 000 000)	-
Unspent EPWP portion deducted from Equitable share in 2019	-	(178 419)
	-	-

Integrated National Electrification Programme (5B)

Current-year receipts	5 160 000	-
Conditions met - transferred to revenue	(5 160 000)	-
	-	-

Conditions still to be met - remain liabilities (see note 14).

27. Public contributions and donations

Other Public contribution	-	12 700 000

Conditions still to be met - remain liabilities (see note 14)

Provide explanations of conditions still to be met and other relevant information

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

28. Employee related costs

13th Cheques	3 242 994	2 911 668
Acting allowances	4 162 889	3 847 718
Basic	41 248 228	38 004 786
Car allowance	1 244 200	1 199 484
Defined contribution plans	6 288 490	6 339 220
Employee benefit obligation	525 881	791 870
Housing benefits and allowances	522 219	585 435
Leave accrual withdrawal	24 299	252 065
Leave pay provision charge	(76 866)	479 441
Long-service awards	361 218	53 396
Medical aid - company contributions	2 337 086	2 142 082
Occupational allowance	208 698	158 613
Other payroll levies	37 898	214 768
Overtime payments	4 622 126	4 833 339
SDL	2 989 952	510 812
Standby Allowance	413 034	406 142
UIF	460 099	432 608
	68 612 445	**63 163 447**

Remuneration of Municipal Manager - NF Malatjie

Annual Remuneration	665 861	638 317
Car Allowance	438 440	420 343
Contributions to UIF, Medical and Pension Funds	156 568	151 903
Backpay	14 380	31 574
	1 275 249	**1 242 137**

Remuneration of Chief Financial Officer - NF Ralabenya

Annual Remuneration	769 494	498 255
Car Allowance	257 130	166 505
Contributions to UIF, Medical and Pension Funds	10 123	7 784
Acting Allowance	-	12 322
Backpay	11 807	8 641
	1 048 554	**693 507**

Remuneration of Director Corporate Services - NS Kobeli

Annual Remuneration	769 494	498 255
Car Allowance	257 130	166 505
Contributions to UIF, Medical and Pension Funds	11 092	8 431
Backpay	11 807	8 641
Acting Allowance	-	10 587
	1 049 523	**692 419**

Remuneration of Director of Technical Services - ML Mokoena

Annual Remuneration	666 642	431 653
Car Allowance	359 982	233 107
Contributions to UIF, Medical and Pension Funds	10 743	8 383
Backpay	11 807	8 641
	1 049 174	**681 784**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

29. Remuneration of councillors

Executive Major	908 780	876 983
Speaker	735 121	709 495
Councillors	4 223 855	4 141 439
Ward Commitees	482 780	455 761
	6 350 536	**6 183 678**

30. Depreciation and amortisation

Property, plant and equipment	29 545 913	28 083 109
Investment property	-	344 898
	29 545 913	**28 428 007**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

31. Impairment of assets

Impairments		
Property, plant and equipment	18 305 411	2 339 486
An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. Infrastructure assets - GRAP 26.(23) states: In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications: (g):Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. Due to significant budget constraints, the municipality could not maintain the maintenance plan as required for the infrastructure assets. This lead to the value in use being lower than the economic value of the assets. Assets were therefore impaired to a condition grade lower based on physical assessment of these assets. Land - IGRAP 18 indicates that land is recognised based on control. Control of land is evidenced by the following criteria: (a) legal ownership; and/or (b) the right to direct access to land, and to restrict or deny the access of others to land. During the year it was identified that control over land has been lost. The most significant part of this was rural development for housing. As the land was not yet transferred to the legal new owners name, the land was impaired.		
Investment property	-	295 177
An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.GRAP 26.(23) states: In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications: (g):Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. A building was destroyed during an uncontrolled fire. The asset is regarded as impaired because its carrying amount exceeds its recoverable amount.		
Other receivables from non-exchange revenue	-	88 025
An amendedment to IGRAP 1, required the Phumelela Local Municipality to account for Traffic Fine Income on the accrual basis. The Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) (GRAP 23), requires that revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured.IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it. Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate. The municipality therefore accounted for each fine issued on the accural basis, however the probabilty was assessed and it was found that the current year cash received from fines related to less than 2.36% of fines issued. Therefore the receivable created was impaired with 97.64% of the remain debtor.		
	18 305 411	**2 722 688**
Reversal of impairments		
Property, plant and equipment	(316 929)	-
Land pracels previously impaired where disposed off during the year. Therefore the impairment allowance was reversed.		
Total impairment losses (recognised) reversed	**17 988 482**	**2 722 688**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

32. Finance costs

Creditors	8 094 194	3 272 410
Interest Cost - Landfill site provision	2 941 992	2 901 273
	11 036 186	**6 173 683**

33. Debt impairment

Contributions to debt impairment provision	72 581 706	32 728 169

34. Bulk purchases

Electricity - Eskom	29 167 175	26 344 937
Water	14 554 371	18 298 870
	43 721 546	**44 643 807**

35. General expenses

Advertising	150 908	165 087
Auditors remuneration	1 478 950	3 569 143
Bank charges	788 505	483 110
Chemicals	1 598 458	711 378
Commission paid	-	4 230 581
Community development and training	1 329 359	879 312
Conferences and seminars	83 829	147 993
Consulting and professional fees	10 054 380	4 989 583
Consumables	1 561 367	740 425
Entertainment	150 149	57 588
Expense 2	3 750 754	-
Fines and penalties	-	178 666
Fuel and oil	1 388 240	1 372 233
Hire	2 407 087	2 092 166
Insurance	-	412 590
Medical expenses	220	-
Other expenses	81 751	156 946
Postage and courier	513 375	249 726
Printing and stationery	520 450	852 890
Protective clothing	178 169	214 175
Repairs and maintenance	13 317 251	9 010 315
Software expenses	2 306 979	2 843 890
Subscriptions and membership fees	1 097 164	1 244 343
Telephone and fax	2 463 105	2 418 405
Training	30 353	71 498
Travel - local	381 325	1 480 930
Vehicle licensing	55 674	53 568
	45 687 802	**38 626 541**

36. Fair value adjustments

Other financial assets		
• Other financial assets (Held for trading)	-	(29 473)

37. Auditors' remuneration

Fees	1 478 950	3 569 143

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

38. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Gain on sale of property, plant and equipment	1 091	-
Impairment on property, plant and equipment	18 305 411	2 339 486
Reversal of impairment on property, plant and equipment	316 929	-
Impairment on investment property	-	295 177
Impairment of other receivables from non-exchange transactions	-	88 025
Depreciation on property, plant and equipment	29 545 913	28 083 109
Depreciation on investment property	-	344 898
Employee costs	79 385 481	72 656 972

39. Cash generated from operations

Deficit	(75 915 137)	(13 490 364)
Adjustments for:		
Depreciation and amortisation	29 545 913	28 428 007
Loss on sale of assets and liabilities	(1 091)	-
Fair value adjustments	-	29 473
Impairment deficit	17 988 482	2 722 688
Debt impairment	72 581 706	32 728 169
Movements in retirement benefit assets and liabilities	(291 855)	874 339
Movements in provisions	6 692 746	358 968
Changes in working capital:		
Inventories	170 885	(175 178)
Receivables from exchange transactions	12 446 028	(16 441 655)
Consumer debtors	(72 581 706)	(32 728 169)
Other receivables from non-exchange transactions	(872 215)	1 413 260
Payables from exchange transactions	46 907 090	51 127 551
VAT	471 715	1 009 062
Unspent conditional grants and receipts	-	(8 175 786)
Consumer deposits	(12 085)	68 628
	37 130 476	**47 748 993**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

40. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	416 358	-	416 358
Trade and other receivables from exchange transactions	-	15 846 573	15 846 573
Other receivables from non-exchange transactions	-	2 038 153	2 038 153
Cash and cash equivalents	-	86 327	86 327
	416 358	**17 971 053**	**18 387 411**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	342 229 465	342 229 465
Consumer deposits	222 384	222 384
	342 451 849	**342 451 849**

2019

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	435 069	-	435 069
Trade and other receivables from exchange transactions	-	28 292 601	28 292 601
Other receivables from non-exchange transactions	-	1 165 938	1 165 938
Cash and cash equivalents	-	3 600 574	3 600 574
	435 069	**33 059 113**	**33 494 182**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	116 430	116 430
Trade and other payables from exchange transactions	295 322 376	295 322 376
Consumer deposits	234 469	234 469
	295 673 275	**295 673 275**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

41. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	23 089 721	3 333 272
Total capital commitments		
Already contracted for but not provided for	23 089 721	3 333 272

This committed expenditure relates to property, pland and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	205 448	479 988
- in second to fifth year inclusive	205 448	479 988
	410 896	**959 976**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

42. Contingencies

The following cases have been reported but not yet confirmed.

MATTER	PHUMELELA LOCAL MUNICIPALITY LEGAL REPRESENTATIVE	NATURE OF CLAIM	CONTINGENT LIABILITY AMOUNT	ESTIMATED COSTS
WGP Wessels Phumelela Local Municipality Freestate	Ponoane Attorneys	Delictual Claim	1. R 1 400 000.00	R 150 000.00
Thabo Khati SALGBC	Ngwane Attorneys	Labour Dispute	R 1 000 000.00	R 100 000.00
Khato project management / / Phumelela Local Municipality - case no 164-8/2020 Freestate High Court	Internal	Contractual Liability	R2 503 137.75	R 0.00
VIP (PTY) LTD Phumelela Local Municipality Freestate	Ponoane Attorneys	Contractual Liability	R 600 000.00	R 80 000.00
Raubex CC Phumelela Local Municipality Freestate	Ponoane Attorneys	Contractual Liability	R 1 300 000.00	R 150 000.00
TOTAL			**R 6 803 137.75**	**R 480 000.00**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

43. Related parties

Relationships

Accounting Officer	NF Malatjie
Members of key management	Mayor - Cllr. TJ Motaung
	Speaker - Cllr. STR Zwane
	Cllr. B Mthombeni
	Cllr. BV Khumalo
	Cllr. KA Sibeko
	Cllr. MB Mhlambi
	Cllr. MM Mashinini
	Cllr. MS Ntsele
	Cllr. NJ Mokoena
	Cllr. SDA Wessels
	Cllr. SE Tshabalala
	Cllr. SJM Mofokeng
	Cllr. SOA Mokoena
	Cllr. TM Tshabalala
	Cllr. VP Kibido

Notes to the Annual Financial Statements

Figures in Rand

43. Related parties (continued)

Remuneration of management

Management class: Councillors

2020

Name	Basic Salary	Contributions to Medical and Pension Funds	Travel Allowance	Cellphone Allowance	Total
Executive Mayor - Cllr. TJ Motaung	645 644	7 121	215 215	40 800	908 780
Speaker - Cllr, STR Zwane	661 096	5 633	27 592	40 800	735 121
Cllr, TI Radebe	170 269	-	56 756	34 000	261 025
Cllr. BV Khumalo	204 323	2 251	68 107	40 800	315 481
Cllr. KA Sibeko	204 323	2 406	68 107	40 800	315 636
Cllr. MB Mhlambi	204 323	2 244	68 107	40 800	315 474
Cllr. MM Mashinini	204 323	2 244	68 107	40 800	315 474
Cllr. NS Ntsele	204 323	2 244	68 107	40 800	315 474
Cllr. NJ Mokoena	204 323	2 244	68 107	40 800	315 474
Cllr. SDA Wessels	270 145	2 921	90 048	40 800	403 914
Cllr. SE Tshabalala	270 145	2 912	90 048	40 800	403 905
Cllr. SJM Mofokeng	204 323	2 249	68 107	40 800	315 479
Cllr. SOA Mokoena	204 323	2 244	68 107	40 800	315 474
Cllr. TM Tshabalala	204 323	2 244	68 107	40 800	315 474
Cllr. VP Kibido	204 323	2 342	68 107	40 800	315 572
Ward Commitees	477 000	5 779	-	-	482 779
	4 537 529	**47 078**	**1 160 729**	**605 200**	**6 350 536**

2019

Notes to the Annual Financial Statements

Figures in Rand

43. Related parties (continued)

Name	Basic Salary	Contributions to Medical and Pension Funds	Travel Allowance	Cellphone Allowance	Total
Executive Mayor - Cllr. TJ Motaung	620 812	8 434	206 937	40 800	876 983
Speaker - Cllr, STR Zwane	496 650	6 495	165 550	40 800	709 495
Cllr. B Mthombeni	196 464	2 693	65 488	40 800	305 445
Cllr. BV Khumalo	196 464	2 733	65 488	40 800	305 485
Cllr. KA Sibeko	196 464	2 814	65 488	40 800	305 566
Cllr. MB Mhlambi	196 464	2 708	65 488	40 800	305 460
Cllr. MM Mashinini	196 464	2 701	65 488	40 800	305 453
Cllr. NS Ntsele	196 464	2 701	65 488	40 800	305 453
Cllr. NJ Mokoena	196 464	2 693	65 488	40 800	305 445
Cllr. SDA Wessels	259 754	3 536	86 585	40 800	390 675
Cllr. SE Tshabalala	259 754	3 494	86 585	40 800	390 633
Cllr. SJM Mofokeng	196 464	2 693	65 488	40 800	305 445
Cllr. SOA Mokoena	196 464	2 693	65 488	40 800	305 445
Cllr. TM Tshabalala	196 464	2 707	65 488	40 800	305 459
Cllr. VP Kibido	196 464	2 725	65 488	40 800	305 477
Ward Commitees	451 000	4 759	-	-	455 759
	4 249 074	**56 579**	**1 266 025**	**612 000**	**6 183 678**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

44. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2018

	Note	As previously reported	Correction of error	Restated
Payables from exchange transactions	17	(244 217 841)	(142 823)	(244 360 664)
Property, plant and equipment	3	682 630 156	14 580 553	697 210 709
Receivables from exchange transactions	8	22 061 057	1 029 117	23 090 174
Accumulated surplus		(356 796 141)	(16 045 020)	(372 841 161)
		103 677 231	**(578 173)**	**103 099 058**

2019

	Note	As previously reported	Correction of error	Restated
Payables from exchange transactions	17	(277 968 019)	(17 588 825)	(295 556 844)
Property, plant and equipment	3	693 463 307	25 063 609	718 526 916
Receivables from exchange transactions	8	37 326 506	1 196 260	38 522 766
Accumulated surplus		(432 401 880)	(15 466 846)	(447 868 726)
		20 419 914	**(6 795 802)**	**13 624 112**

Statement of financial performance

2019

	Note	As previously reported	Correction of error	Restated
Employee costs	28	72 404 905	252 065	72 656 970
Depreciation, amortisation and impairments	3	32 848 980	(1 698 286)	31 150 694
Bulk purchases		-	8 242 023	-
Surplus for the year		**105 253 885**	**6 795 802**	**103 807 664**

Cash flow statement

2019

	Note	As previously reported	Correction of error	Restated
Cash flow from operating activities				
Suppliers		38 964 225	8 784 768	47 748 993
Cash flow from investing activities				
Purchase of property, plant and equipment		(42 954 031)	(8 784 768)	(51 738 799)

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

44. Prior-year adjustments (continued)

Errors

The following prior period errors adjustments occurred:
1.During the financial year the municipality conducted a full waste water verification. Takeon assets was identified which were never accounted for. The effect of the error is as follows:

Property, plant and equipment	R2,930,011.48
Depreciation	R 85,067.91
Accumulated surplus	-R3,015,079.39

2.During the financial year the municipality conducted a full road condition assessment. It was identified that when the takeon of assets were accounted, not all foundation layers was added to the register. The effect of the error is as follows:

Property, plant and equipment	-R 968,048.97
Accumulated surplus	R 968,048.97

3.As a result of the new layers identified, depreciation was corrected as follows:

Accumulated surplus	R 4,854,009.43
Depreciation, impairments and amortisation	R 4,730,603.15
Property, plant and equipment	-R 9,584,612.58

4. Retention's on projects was identified to be misstated. The effect is as follows:

Payables from exchange transactions	-R 11,488.74
Receivables from exchange transactions	R 11,488.74

5. The legal matter between Rudnat and Ruabex and the municipality has been resolved. The effect of the error is as follows:

Payables from exchange transactions	-R 9,083,247.37
Property, plant and equipment	R 7,898,476.23
Receivables from exchange transactions	R 1,184,771.14

6. Moveable assets were incorrectly disposed in 2018, this was correct as follows:

Accumulated surplus	-R 22,704.74
Depreciation, impairments and amortisation	R 12,879.08
Property, plant and equipment	R 9,825.66

7. The condition assessment performed on roads for 2020 and application of the correct standard, required the municipality to adjust its prior year impairments

Accumulated surplus	-R 68,371.84
Property, plant and equipment	R 7,088,313.04
Depreciation, impairments and amortisation	-R 7,019,941.20

8. An additiona;ll invoice was received from DWA, therefor the municipality accounted for the unrecorded liability. The adjustment is as follows:

Payables from exchange transactions	- R 8,242,024
Accumulated surplus	R 8,242,024

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45. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk, but the exposure is limited to the the municipality's management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes. Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	342 229 465	-	-	-

At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	295 322 376	-	-	-

Notes to the Annual Financial Statements

45. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2020	2019
Receivables from non-exchange transactions	15 846 573	28 292 601
Receivables from exchange transactions	2 038 153	1 165 938
Bank balances	86 327	3 600 574

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income received on interest on investments are dependent of changes in market interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in market interest changes.

To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

Cash flow interest rate risk

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

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46. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 358 463 227 and that the municipality's total liabilities exceed its assets by R 358 463 227. The current liabilities of R 282,071,453 (2018: R 256,179,217) exceeded its current assets R 43,202,750 (2018: R 33,545,175) by R 238,868,703 (2018: R 222,634,042).

In addition, the municipality owed Eskom R 126,339,372 (2018: R128,492,188) and the water board R 76,925, 516 (2018: R68,374, 490) as at 30 June 2019.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The municipality is experience some financial difficulties, indicators are as follows:.
1. Suppliers are not paid within the legislative 30 days;
2. Employee benefit obligations are unfunded; refer note 7
3. High levels of distribution losses; refer note 50
4. Slow collection and low recoverability of outstanding consumer accounts; and
5. Unfavourable financial ratios.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

47. Unauthorised expenditure

Opening balance as previously reported	624 800 647	538 159 581
Opening balance as restated	**624 800 647**	**538 159 581**
Add: Expenditure identified - current	135 086 075	86 641 066
Closing balance	**759 886 722**	**624 800 647**

The municipality has started the process to investigate unauthorised expenditure identified. The process followed is in terms of the guidline issued by National Treasury.

48. Fruitless and wasteful expenditure

Opening balance as previously reported	19 134 990	16 372 588
Opening balance as restated	**19 134 990**	**16 372 588**
Add: Expenditure identified - current	10 090 705	2 762 402
Closing balance	**29 225 695**	**19 134 990**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

48. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

Summary of fruitless and wasteful		
Eskom - Interest	9 501 804	2 102 045
Telkom - Interest	57 370	20 941
Auditor General - Interest	-	3 621
SARS - Interest & Penalties	530 872	180 895
DWS - Interest	-	454 899
Ben Hur	659	-
	10 090 705	**2 762 401**

The municipality has started the process to investigate fruitless and wasteful expenditure identified.
The process followed is in terms of the guidline issued by National Treasury.

49. Irregular expenditure

Opening balance as previously reported	191 241 574	177 663 378
Opening balance as restated	**191 241 574**	**177 663 378**
Add: Irregular Expenditure - current	2 729 124	13 578 196
Closing balance	**193 970 698**	**191 241 574**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

49. Irregular expenditure (continued)

Incidents/cases identified in the current year include those listed below:

Summary of irregular expenditure

Competitive bidding not invited	1 787 056	13 011 086
Three written quotations not invited	942 068	202 459
Declaration of interest not submitted	-	48 000
No Employment Contracts	-	316 651
	2 729 124	**13 578 196**

Cases under investigation

The municipality has started the process to investigate irregular expenditure identified. The process followed is in terms of the guidline issued by National Treasury.

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	382 520	162 710
2018/2019 subscription / fee	-	719 810
2019/2020 subscription / fee	413 848	767 750
Amount paid - current year	(5 000)	(1 285 250)
Amount paid - previous years	-	17 500
	791 368	**382 520**

Material losses through criminal conduct

Electricity Distribution loss	12 918 832	15 211 328
Water Distribution loss	9 712 850	7 017 466
	22 631 682	**22 228 794**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Opening balance	1 367 901	(1 797 103)
Current year subscription / fee	2 464 198	4 860 650
Amount paid - current year	(2 700 000)	(1 695 646)
	1 132 099	**1 367 901**

PAYE and UIF

Current year subscription / fee	9 692 456	9 116 147
Amount paid - current year	(7 359 605)	(9 116 147)
	2 332 851	**-**

Pension and Medical Aid Deductions

Current year subscription / fee	14 742 575	13 526 246
Amount paid - current year	(12 687 522)	(13 526 246)
	2 055 053	**-**

VAT

VAT receivable	9 758 450	10 230 165

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TJ Motaung	2 259	410	2 669
VP Kibido	7 814	2 175	9 989
SE Shabalala	1 096	579	1 675
MM Mashinini	1 617	1 261	2 878
	12 786	**4 425**	**17 211**

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TJ Motaung	93	11 120	11 213
SE Tshabalala	354	892	1 246
VP Kibido	278	5 898	6 176
JM Mofokeng	325	1 122	1 447
	1 050	**19 032**	**20 082**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2020	Highest outstanding amount	Aging (in days)
VP Kibido	2 175	150

30 June 2019	Highest outstanding amount	Aging (in days)
VP Kibido	2 920	120

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations the following deviations are listed below.

Incident	2020	2019
VKB - Repairs of firefighter pumps	22 722	-
Blue seal - Sewer spillage at Vrede waste treatment works	278 882	-
ASG GEO Installation of boreholes	2 850 867	-
AFS Preparation and Audit Assistance - PKF West Rand	-	4 407 203
Revenue Enhancement Initiative	-	3 954 721
Unblocking sewer lines	-	176 000
	3 152 471	**8 537 924**

Notes to the Annual Financial Statements

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51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.